

Fixed Asset Financing for Small Business

SBA's 504 Loan Program

The Small Business Administration's 504 Loan Program provides long-term, fixed rate financing for the purchase of long-term assets. It can help finance the purchase of land, buildings, machinery, equipment, building construction and all associated soft costs (such as interim interest during construction, attorney, accountant, architect, appraisal fees etc) more affordably than through conventional financing.

504 Benefits

- Minimal down payment (as low as 10%) which preserves working capital
- Fixed, below-market interest rates
- Longer terms for repayment; fully amortized with no balloon payments
- Unlike a lease or rent payment, a 504 fixed-rate loan payment won't increase annually. The monthly 504 payment can even be less.
- Can be used in conjunction with other state and local government and utility incentive programs

Buy vs. Lease?

Owning rather than leasing your commercial property can really pay off. Owning increases equity and allows for depreciation and mortgage interest tax deductions that can boost your bottom line!

Example of a 504 Loan

A business that has been leasing space wants to purchase a building and new equipment to facilitate business expansion. The financing package is as follows:

Purchase of Land	\$ 500,000
Construction of Building	1,000,000
Purchase of Equipment	200,000
Furniture and Fixtures	50,000
Professional Fees	<u>50,000</u>
Total	\$ 1,800,000

If a bank were to finance the project conventionally, it typically would lend up to 80% of the project cost (with you contributing 20%) at a floating interest rate (such as prime plus one percent), for 15 years with a three-to five-year balloon. Utilizing the 504 program, you can finance up to 90 percent of the project cost. The bank lends only 50%, thereby reducing its risk and possibly the corresponding interest rate. SBA 504 lends up to 40% at a fixed rate for 20 years, and most importantly, your down payment could be as little as 10%.

	Conventional	With 504
Bank	\$ 1,440,000	\$ 900,000 (15 years)
CDC		\$ 720,000 (20 years)
Your investment	\$ <u>360,000</u>	<u>\$ 180,000</u>
Total	\$ 1,800,000	\$1,800,000

As shown, the amount you have to invest would be \$180,000 less, thereby conserving cash and providing the necessary working capital to support growth. Additionally, you improve your cash flow as a result of the longer maturity and potentially lower interest rates.

For more information on how the 504 program can help your business, contact John J. Marino at 212-264-1480 or visit our website at www.sba.gov.